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REGIONAL COOPERATION IN THE ECONOMIC, SOCIAL AND RELATED FIELDS

Summary of the survey of economic and social conditions in Africa, 1994

CONTENTS

		Paragraphs	Page
I.	OVERVIEW	1 - 10	3
II.	SECTORAL DEVELOPMENTS	11 - 13	7
III.	THE SOCIAL SITUATION	14 - 15	9
IV.	THE EXTERNAL SECTOR	16 - 25	9
V.	POLICY DEVELOPMENTS IN 1994	26 - 35	12
VI.	PROSPECTS FOR 1995-1996	36 - 40	16

Tables

1.	African economic indicators, 1990-1994	4
2.	Output share and growth rate by subregion and economic grouping	5
3.	Frequency distribution of countries according to percentage growth rate of GDP, 1990-1994	7

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CONTENTS (continued)

Page

4. Indicators of manufacturing sector performance by subregion and economic grouping, 1992-1994 8

5. Balance of payments, 1990-1994 11

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I. OVERVIEW

1. The economic performance of the African region has been sluggish in 1994, without real recovery or accelerated upturn for it to be explained only in terms of political instability, ethnic conflicts, the unfavourable international economic environment or fluctuations in weather-constrained agricultural output. Political instability subsided in some African countries during the year. Though no new conflict situations emerged on the continent, the chronic flashpoints continued in many cases to give cause for concern not only in Africa but also on the part of the world community of nations. The overall social situation in Africa has continued to deteriorate and the proportion of the population living under conditions of poverty has increased at an even faster rate. The fiscal gap continued to widen in several countries, owing to the social and political limits to expenditure reduction, and the uncertainties and policy constraints of an unstable fiscal environment. Indicators of trade performance in Africa were mixed in 1994. On the one hand, they followed the global trend, benefiting from the higher demand and increases in the prices of primary commodities and, on the other, Africa's share of world merchandise trade of 2.4 per cent was the same as in 1993, and slightly lower than the figure of 2.6 per cent in 1992. Efforts deployed by the bilateral creditors have provided only partial relief for the official debt burden of very few countries, but most of the heavily and severely indebted countries are still facing enormous payment difficulties.

2. There were strong inflationary pressures in a number of African countries in 1993-1994. The most prominent case was Zaire, where excessive budgetary deficits brought inflation to an unprecedented level of more than 8,500 per cent in 1994. In Angola, inflation also reached extremely high levels, estimated at more than 1,000 per cent in December 1994. The franc zone countries that were previously characterized by very low inflation are now experiencing considerable price increases as a result of the 50 per cent devaluation of the CFA franc. However, with the maintenance of tight monetary policies in those countries, involving deficit financing limits of 20 per cent of previous budget tax receipts and the curtailment of salary increases, inflation has been brought below the rate of devaluation in most cases. There has been some less favourable experience none the less, such as in the Congo, where inflation is reported at a high 60 per cent in 1994.

3. In terms of output, Africa's gross domestic product (GDP) grew by 2.4 per cent in 1994, compared to only 0.9 per cent in 1993 and -0.3 per cent in 1992 (see table 1). Despite the modest increase in growth in 1994, which was the fastest annual rate during the period 1990-1994, the African economy has continued to fall behind those of other developing regions, and GDP growth is yet to keep pace with population growth. Per capita income in Africa was on the decline in 1994, falling by 1 per cent, the same rate as during the 1980s. That means that economic performance in the region continues to lose ground in the 1990s, in both absolute and relative terms.

Table 1. African economic indicators, 1990-1994

(Percentage change)

	1990	1991	1992	1993	1994
GDP growth: Africa	0.5	2.9	-0.3	0.9	2.4
GDP growth: developing Africa	0.8	4.4	0.1	0.9	2.3
Agricultural production (FAO index)	127.9	133.9	130.9	135.7	138.6
Oil production (millions of tons)	321.4	336.4	343.4	339.2	338.2
Mining production index (1990 = 100)	1.0	-4.0	-8.0	-7.0	..
Consumer price index (1990 = 100)	16.2	29.3	35.4	32.8	45.7
Oil prices, Brent crude ($/barrel)	23.6	19.7	19.0	16.8	15.5
Export price index (1990 = 100)	15.7	-11.6	-2.1	-7.6	2.1
Import price index (1990 = 100)	7.9	-2.6	2.1	-2.8	1.6
Terms of trade index (1990 = 100)	7.3	-9.2	-4.1	-5.0	0.5
Exports ($ billions)	94.9	96.5	94.2	87.9	89.6
Imports ($ billions)	90.7	91.7	96.5	93.5	97.8
Current account ($ billions)	-5.2	-2.0	-6.2	-7.8	-10.5

Source: ECA secretariat.

4. For the region as a whole, the growth in domestic demand was rather sluggish at 2.7 per cent, reflecting the slow growth of consumption and the declining trend of investment. Aggregate private consumption rose by only 1 per cent a year in developing Africa during the period 1980-1990, by 1.5 per cent in 1993 and by only 1.1 per cent in 1994. Gross fixed investment has been on a downward trend in developing Africa since 1980, at the least, dropping by 2.5 percentage points in 1993 to a level 21 per cent below the 1980 figure of total investment volume. The gross investment ratio, which was at a high of 30 per cent in 1980, dropped to 21 per cent in 1990 and has remained at 20 per cent ever since. However, available data for 1994 indicate some noticeable rise in the investment volume.

5. There were significant divergencies in performance at the country level and in subregional economic groupings in Africa during 1994 (see table 2). In the North Africa subregion, buoyant economic activity resulted in output growth of 4.0 per cent, following a growth of only 1.1 per cent in 1993. That was due in part to the strong economic recovery in Morocco, which was badly affected by drought in 1993 and its GDP may have grown by 10.5 per cent in 1994. In Algeria, the political crisis has compounded an already difficult situation: since the fall of oil prices in 1986, Algeria's economy has been constrained by a very high debt service and high import requirements of industry. In the Libyan Arab Jamahiriya, United Nations sanctions have had a damaging impact on the economy which has reportedly contracted substantially in 1994. Oil production, the main source of government revenue, remained stable in 1994 after a sharp drop in 1993.

Table 2. Output share and growth rate by subregion and economic grouping

	Per capita GDP at 1990 US dollars	GDP percentage regional share	Growth rate percentage at 1990 prices			
	1993	1993	1990-1993	1992	1993	1994
North Africa	1 261.0	40.7	2.0	1.1	1.1	4.0
Sub-Saharan Africa	506.7	61.6	1.7	-0.7	0.3	0.6
Central Africa	415.1	6.9	-3.9	-5.4	-5.0	-5.4
East Africa	673.7	12.8	0.1	0.3	-2.4	1.6
Southern Africa	1 080.8	29.5	-0.3	-1.3	-3.2	0.4
West Africa	369.3	17.3	5.2	1.3	4.0	2.1
Sahel	384.8	5.8	3.1	3.4	-0.7	2.6
Sub-Saharan Africa (without Nigeria)	588.5	56.4	1.3	-0.9	-0.8	1.3
Oil exporters	875.8	47.2	1.7	0.6	1.2	1.5
Non-oil exporters	561.8	52.8	1.9	-0.7	0.3	2.7
Least developed countries	241.6	15.3	0.3	-1.2	+0.1	-12
Others (non-oil exporters and non-LDCs)	1 224.3	37.5	3.6	-0.3	0.6	4.7
Franc zone	589.0	11.1	-0.9	-1.7	-1.4	1.6
Mineral exporters	1 134.9	28.0	-3.0	-4.3	-3.3	1.4
Beverage exporters	253.8	9.7	4.9	-0.3	1.9	0.4
Developing Africa	676.3	77.7	0.8	0.1	0.8	2.3
South Africa	2 776.9	22.2	-0.9	-1.8	1.2	2.1
Africa	555.7	100.0	1.1	0.9	2.4	2.4

Source: ECA secretariat.

6. In the West Africa subregion, growth has stalled in 1994, dropping to 2.1 per cent from the 4.0 per cent recorded in 1993. That was mainly due to the slowing down of growth in Nigeria, where the economy is estimated to have grown by only 2.1 per cent in 1994, compared to 7.2 per cent in 1993. Growth in the West African CFA countries though encouraging in 1994, remained only modest. Overall output in these countries increased by only 2.8 per cent, compared to 8 per cent in 1993. In Côte d'Ivoire, the largest CFA economy in West Africa, output decline has apparently stopped, but growth was minimal, at 0.8 per cent, in 1994.

7. The Central Africa subregion continues to reflect the free fall of the Zairian economy and the lacklustre performance in the rest, including the devastated economies of Rwanda and Burundi. Subregional output fell by 5.4 per cent in 1994, following declines in the preceding three years of 1.2 per cent in 1991, 5.4 per cent in 1992 and 5.0 per cent in 1993. As for Zaire, the mining industry had been damaged during the riots of 1991-1992, and production of copper has now fallen to about 50,000 tons compared to an annual capacity of 500,000 tons. The three oil exporters of the subregion, Cameroon, the Congo and Gabon, have not recorded good results either. Cameroon has been affected by poor performance of agriculture and industry, and a steady decline of oil production. The rapid fall in GDP since 1991 moderated in 1994, though a decline of 1.5 per cent was still recorded. In the Congo, the political factors in 1994 as well as continuing budgetary problems were seriously constraining the economy. Despite the increase in oil production to nearly 10 million tons in 1994, GDP contracted by 3.6 per cent. In Gabon, despite the initial benefits of the increase in oil production, only a modest growth of 1.6 per cent has been recorded in 1994.

8. Economic activity was disappointing in the East and Southern Africa subregions. This is because of drought conditions in the Horn of Africa, the constraints of rehabilitation and reconstruction in Mozambique, and renewed drought in Malawi. As for South Africa, the most advanced economy in the subregion and in the African region as a whole, the economy has stagnated since the mid-1980s, despite its high level of industrialization. This was due to the constraints created by the apartheid system which prevented the country from fully mobilizing its human resources and hampered its effective participation in the international economy because of sanctions.

9. In the group of African least developed countries, economic performance in 1994 has again been poor. Output declined by 1.2 per cent, following declines in 1992-1993. More than two thirds of all African countries are now least developed countries. Among them, the Sahel countries form a homogeneous group, by virtue of their geographical position and an economic structure dominated by livestock and cereal cultivation. In 1994, with the return of good weather to West Africa, agriculture recovered in most Sahelian countries and, in the aggregate, GDP grew by 2.6 per cent after a decline of 0.7 per cent in 1993. For the nine countries that constitute the Permanent Inter-State Committee on Drought Control in the Sahel (CILSS) - namely, Burkina Faso, Cape Verde, Chad, the Gambia, Guinea-Bissau, Mali, Mauritania, the Niger and Senegal - the results in 1994 may be even better, as their agricultural crops, including food items, are a record one; cereal production was estimated at 9.9 million tons.

10. Table 3 provides a frequency distribution of the countries in the African region according to output growth rates. Twelve countries experienced negative growth in 1994 compared to 18 in the previous year, while eight countries are expected to exceed 6 per cent in 1994 compared to nine in 1993, which explains in part the slight improvement of economic performance at the regional level. The six countries with the most impressive GDP growth rates in 1994 are Morocco (10.5 per cent), Namibia (8.7 per cent), Ghana (8.0 per cent), Uganda (7.2 per cent), Mauritius (6.8 per cent) and Zimbabwe (6.0 per cent). About one fifth of the African countries had GDP growth rates in the range of 3 to 6 per cent in 1993 and 1994.

Table 3. Frequency distribution of countries according to percentage growth rate of GDP, 1990-1994

Growth rate	1990	1991	1992	1993	1994 a/
Negative	18	14	20	18	12
0 ≤ 3	10	13	15	13	21
3 ≤ 6	16	15	14	12	11
6 ≤ 8	6	5	3	5	5
≥ 8	2	5	0	4	3
Total	52	52	52	52	52

Source: ECA secretariat.

a/ Estimate.

II. SECTORAL DEVELOPMENTS

11. Agriculture performed better in most parts of the region, resulting in above-average harvest, mainly because of the improvement in the weather conditions during the year. The North Africa subregion achieved an impressive growth rate of 12.8 per cent, followed by the Southern and West Africa subregions, where output is reported to have grown by 3.6 per cent and 2.7 per cent, respectively. In contrast, the East and Central Africa subregions registered negative growth rates of 1 per cent and 1.5 per cent, respectively. Food production increased by 2.5 per cent in 1994, compared with 4.5 per cent in 1993. Over the same period, the total output of cereals increased by 9.3 per cent, from 96.4 million tons to 105.3 million tons. Output of wheat increased from 13.4 million tons in 1993 to 15.5 million tons in 1994, while output of coarse grains rose from 67.9 million tons to 74.4 million tons over the same period. On the other hand, output of roots and tubers, which traditionally provide a key share of the food supply in much of tropical Africa, increased by 0.5 per cent, from 119.4 million tons in 1993 to 120 million tons in 1994. Cassava production stagnated in Ghana and Madagascar in both 1993 and 1994, while it declined markedly in Zaire (by 15.9 per cent), Uganda (by 2.7 per cent), the United Republic of Tanzania (by 4.4 per cent) and Mozambique (by 5.7 per cent). In developing Africa, industrial crops such as coffee and

cocoa and sugar production increased by 6.2, 3.7 and 15.4 per cent, respectively, in 1994, while production of tea and tobacco decreased respectively by 7 and 12.2 per cent over the same period.

12. Available data on mining production show that there have been fluctuations in the levels of output of individual products, but that the overall trend in 1993 was downwards. There are as yet no complete data on specific products for 1994; nevertheless, preliminary estimates suggest that cobalt and copper are continuing their downward trend. The performance of other minerals and metal ores is rather poor, with output of bauxite and gold decreasing slightly. Crude oil production was slightly lower than in 1993. Production increases in countries such as Angola, Gabon and the Libyan Arab Jamahiriya were offset by lower output in other countries, particularly Nigeria where production fell in the second and third quarters of 1994 owing to a workers' strike.

13. As shown in table 4, growth in manufacturing value-added (MVA) of developing Africa recovered in 1994 with an estimated increase of some 5 per cent following a decline in 1993 and a modest increase in 1992 and 1991. However, midway through the Second Industrial Development Decade for Africa, most of the countries in sub-Saharan Africa have yet to take even the first faltering steps in the transition towards a modern industrial and technological society. The sector continues to be characterized by structural weaknesses such as low productivity, underutilization of capacity and inadequate industrial investments; acute dependence on external sources of raw materials, technology and other essential inputs; and obsolete machinery and ill-maintained equipment. With the liberalization of trade, the sector also faces problems of intense competition from cheap imports from relatively technologically better-off developing countries, especially those of South-East Asia, which are making rapid inroads into the African market for basic consumer goods.

Table 4. Indicators of manufacturing sector performance by subregion and economic grouping, 1992-1994

Subregion and economic grouping	Share of MVA in regional MVA (%)			Share of MVA in GDP (%)			MVA growth rates at 1990 prices (%)		
	1992	1993	1994 a/	1992	1993	1994 a/	1992	1993	1994 a/
Developing Africa	65.50	65.47	65.86	12.69	12.58	12.91	1.91	-0.07	5.04
South Africa	34.50	34.53	34.14	24.29	24.00	24.28	3.28	0.04	3.28
Africa	100.00	100.00	100.00	15.19	15.05	15.36	0.06	-0.04	4.43
North Africa	40.58	41.39	42.16	15.19	15.32	15.66	4.47	1.94	6.40
West Africa	9.34	9.22	9.56	8.05	7.64	8.11	1.40	-1.30	8.35
Eastern and Southern Africa	44.90	44.67	44.14	19.90	19.71	19.99	-2.76	-0.55	3.20
Central Africa	5.18	4.73	4.13	10.48	10.04	9.64	-9.41	-8.76	-8.79
LDCs	9.95	9.70	9.25	9.82	9.57	9.63	0.22	-2.51	-0.44
Sub-Saharan Africa	60.34	59.68	58.88	14.83	14.57	14.85	2.53	-1.15	3.05

Source: ECA secretariat.

a/ Preliminary estimates.

III. THE SOCIAL SITUATION

14. The overall social situation in Africa has continued to deteriorate. Severe cutbacks of expenditure on education and emphasis on cost recovery and cost sharing continue to affect the education sector adversely in 1994 by falling gross enrolment ratios, haphazard attendance, high attrition and repetition rates, low morale and exodus of teachers from the profession. Cost-recovery programmes and pay disputes have interrupted the demand for health care in many countries. More than anything else, however, it is the rapid spread of the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) that has brought untold havoc to the African health landscape in recent years.

15. Women, children and youth bear a disproportionate burden of the social crisis in Africa. African women experience the highest maternal mortality rates in the world, while the level of illiteracy among them is almost unsurpassed anywhere else. Widespread unemployment and underemployment has continued. According to the International Labour Organization (ILO), open unemployment in urban areas has increased without abatement over the past two decades, growing from 7.7 per cent in 1978 to 22.8 per cent in 1980 and is projected to reach 30 per cent by the year 2000. The worsening plight of refugees and displaced persons in Africa remains serious and alarming. Today, the number of refugees in Africa is in excess of 7 million, or approximately one third of the total world refugee population. About three times that number are internally displaced in various parts of the continent. Despite the emphasis in many of the seminal documents and plans of action emanating from Africa on the importance of population factors in development planning, most Governments have yet to formulate concrete population policies geared to lowering the high population growth rates, let alone implementing such policies. The only positive developments in the social arena in 1994, perhaps, were in the democratization process, culminating in the establishment of popularly elected Governments in a number of African countries.

IV. THE EXTERNAL SECTOR

16. The problems of Africa's external trade, debt and resource flows are closely linked. Recent developments have shown clearly that none of the three problems can be resolved effectively without substantial progress on the other two. Indicators of Africa's merchandise trade were mixed in 1994. On the one hand, trade performance in 1994 followed the global trend, benefiting from the higher demand of primary commodities and increases in their prices. On the other hand, Africa's share of world merchandise trade in 1994, at 2.4 per cent, was the same as in 1993, but slightly lower than the figure of 2.6 per cent attained in 1992.

17. According to estimates of the Economic Commission for Africa (ECA), the value of merchandise exports increased by 4.2 per cent in 1994, while the volume increased by 2.0 per cent, which implies a 2.1 per cent increase in the unit value of exports. Import values increased by 6.5 per cent in 1994. In 1993, the value of imports decreased by 1.4 per cent, because a 1.4 per cent increase in volume was more than offset by a 2.8 per cent fall in the unit value. The increased volume of imports in 1994, though modest, had a positive impact on

economic activity in many countries. In addition to providing some respite from balance-of-payments pressures, it enabled African countries to increase capacity utilization because of the greater availability of imported raw materials and spare parts. Increased capacity to import capital goods also revived the level of investment.

18. Export commodity prices of interest to Africa rose at a faster rate in 1994 than in 1993. On the other hand, the ECA overall import price index rose to 1.6 per cent in 1994 compared with a decline of 2.8 per cent in 1993. Although both export and import prices increased, the former increased more than the latter, and the terms of trade price index (base year, 1990 = 100) improved by 0.5 per cent in 1994, as compared to a fall of 5.0 per cent in 1993. The purchasing power of exports increased by 2.6 per cent in 1994, after falling by 4.8 per cent in 1993.

19. The commodity composition of the region's trade continues to be dominated by exports of primary commodities and imports of manufactured goods. In 1993, 86 per cent of Africa's foreign exchange earnings were derived from primary commodities, while imports of manufactured goods accounted for 73 per cent of the total value of imports, a proportion that is not very different from that of two decades ago. There has been little change in the direction of African trade.

20. For historical reasons, the European Union (EU) continues to dominate Africa's external trade, accounting for 73 per cent of the region's exports and providing 57 per cent of its imports. Intra-African trade claimed 7.4 per cent of the total trade in 1992; a significant improvement over the previous year. However, a commodity-wise analysis shows that changes in the composition of intra-African trade have been slight. The share of food and beverages, which was 24.4 per cent in 1980, declined to 20.6 per cent in 1992. The share of oils and crude materials increased from 9.1 per cent in 1980 to 11.4 per cent in 1992. The share of mineral fuels decreased from 40.9 per cent in 1980 to 34.3 per cent in 1992. The share of chemicals rose from 4.4 per cent to 7.8 per cent. Machinery which accounted for 2.9 per cent of intraregional trade in 1980, rose to 5.5 per cent in 1992. The share of other manufactures was 18.2 per cent in 1990 and increased to 20.3 per cent in 1992.

21. Africa's balance-of-payments problems (see table 5) are a reflection of the lack of structural transformation in African economies and, consequently, in African trade, during the past three decades. The long-term solution to persistent deficits is structural change and diversification, which will increase the capacity of African economies to minimize the impact of adverse developments and take advantage of the opportunities in the world market. There is also the need for rigorous export promotion and a programme to support domestic industries by improved infrastructure, as well as a vigorous training programme for skilled labour. Regional cooperation and intra-African trade would make a major contribution to export diversification, food security, export promotion and the development of banking, insurance and shipping services. All this will have a favourable impact on Africa's balance of payments in the long term and will protect African countries from getting bogged down again with an intractable debt burden.

Table 5. Balance of payments, 1990-1994

(Millions of United States dollars)

	1990	1991	1992	1993	1994
Exports	94.9	96.5	94.2	87.9	89.6
Imports	90.7	91.7	96.5	93.5	97.8
Trade balance	4.2	4.8	-2.4	-5.6	-8.2
Services, net	-6.9	-7.7	-6.9	-6.2	-6.9
Unrequited transfers	17.2	18.1	18.6	19.2	20.1
Official	8.5	8.5	8.6	9.7	10.0
Private	8.7	9.6	9.9	9.5	10.1
Income, net	-19.7	-17.2	-15.4	-15.3	-15.5
Current account	-5.2	-2.0	-6.2	-7.8	-10.5
Capital account, inc. errors	2.2	-12.0	-7.2	-7.0	-3.1
Overall balance	-3.0	-14.0	-13.4	-10.2	-13.6
Change in reserves (-increase)	-5.1	-6.9	-2.1	-4.3	-5.6
Net external financing	8.1	20.8	15.5	14.5	19.2

Source: International Monetary Fund, World Economic Outlook and International Financial Statistics; The Economist Intelligence Unit; national sources; and ECA secretariat.

22. Africa's external debt is estimated to have increased by 3.2 per cent to reach US$ 312.2 billion by the end of 1994. The African debt crisis has been fuelled, in part, by a global financial crisis. The unfavourable terms of trade for Africa's major exports in the world market made matters worse, by reducing the capacity of Governments to cope with domestic pressures. It is therefore not a temporary liquidity crisis that could be resolved by the rescheduling agreements designed by Paris Club or London Club creditors.

23. Given the poor results obtained in Africa under the various debt relief schemes, it is necessary to reconsider the debt issue and its effects on the prospects for African economic recovery and growth. The current debt-relief schemes are merely a palliative, suited to countries whose payment defaults result from temporary liquidity crisis rather than from a serious solvency crisis and structural economic problems requiring long-term remedial measures. African countries, more particularly those whose crisis can be resolved only by raising and maintaining export revenues at a level compatible with their debt servicing, have all undertaken comprehensive programmes of economic reform over

the past 10 years. However, such reforms in themselves have not been sufficient to restore private investor confidence or bring the debt-service burden down to manageable proportions. While the efforts deployed so far by the bilateral creditors have provided partial relief for the official debt burden of very few countries, most of the heavily and severely indebted countries are still facing enormous payment difficulties. Such a situation calls for radical and exceptional measures if these countries are to emerge from the debt crisis trap. Most of the efforts have focused mainly on official debt, but the complexity of Africa's debt problems requires that other components of debt, in particular commercial and multilateral debt, need to be taken into account, lest they undermine the efforts made on official debt.

24. Since 1990, there has been a marked change in the structure of resource flows: the relative increase of official development assistance (ODA), estimated at US$ 3.1 billion for the first three years of the 1990s, was not enough to compensate for the dwindling receipt of private resource flows. The share of bilateral donor disbursements has decreased steadily over the years since 1985. While it accounted for 70 per cent of ODA in 1985, it fell to 68 per cent in 1991 and to 66 per cent in 1992. While multilateral disbursement has increased over the period, the trend has been irregular. What is more, the volume of multilateral lending has been modest when compared to the financing needs of the poorest developing countries as a group. In the case of bilateral official lending, the concessional element fell by half from 1989 to 1993. In the case of multilateral lending on concessional terms, which accounted for 45 per cent of official loans in 1985, the proportion has exceeded 70 per cent since 1990. In contrast, technical assistance grants expanded by nearly 20 per cent between 1990 and 1993. The trend of the latter component of ODA would seem to suggest that part of the bilateral inflows has been diverted to technical assistance, whose cost and effectiveness are increasingly being called into question.

25. With regard to private financial flows, there has been a slight recovery in foreign direct financial and portfolio investment but it has been confined to a few countries where economic reforms, in particular the privatization of public enterprises and parastatals, created opportunities for equity participation or where the best opportunities for profit exist because of a stable and expanding economic environment. On the other hand, net transfers on private lending has worsened to a net outflow of US$ 1.7 billion in 1992, confirming the persistence of negative transfers by commercial banks from the low-income countries of sub-Saharan Africa. Thus, the fact that private capital resources are currently more abundant in the world does not guarantee that they will be an automatic substitute for concessional flows to African countries.

V. POLICY DEVELOPMENTS IN 1994

26. In response to continued macroeconomic imbalances and instability, the overwhelming majority of African countries continued to implement reforms focusing on fiscal austerity, restrictive monetary policies and the liberalization of foreign exchange and interest rates. The reform measures were aimed specifically at liberalizing factor and product markets, removing distortions, empowering the private sector and making the public sector more

efficient, in spite of the enormous short-term costs and the social consequences of such measures. The main focus was the creation of a stable macroeconomic environment for growth. However, most countries were yet to make the necessary transition from an overwhelming preoccupation with adjustment and stabilization to the long-term concerns with sustainable development and structural transformation. In 1994, as in previous years, government policy initiatives on rural development related to areas such as poverty alleviation; rationalization and liberalization of agricultural parastatals; subsidized credit; price guarantees and price support; and sustainable agricultural activities in combination with protection of the environment.

27. Fiscal reforms aimed at enhancing public revenues and restraining public spending, were undertaken in many African countries during the year, with the objective of reducing the fiscal deficit in proportion to GDP. A two-pronged approach towards enhancing public revenues was generally adopted: (a) through institutional reforms, for example strengthening revenue agencies in order to increase the collection rate; and (b) through the broadening of the tax base by increasing the scope of indirect taxation, for example, by introducing value-added tax and user charges on some public services. At the same time, several Governments have taken steps to streamline public spending by reducing the public sector payroll, cutting or eliminating subsidies and holding down the growth rate of public consumption. This also involved public sector restructuring and expenditure rationalization in some countries, as well as public enterprise reforms.

28. Recurrent expenditures were already heavily compressed, and further compression often proved socially and politically untenable. In such cases, it was the capital expenditure that, for the most part, bore the brunt of fiscal austerity and budgetary pruning despite the high developmental cost of a steep reduction in an already low capital budget. In Malawi, for example, the prolonged and severe drought has drastically reduced agricultural tax revenues while necessitating increased expenditures on imports to fill the massive food shortfall. On the other hand, in Morocco, which had a better-than-average harvest in 1994, the Government had to buy surplus grains from farmers at guaranteed floor prices.

29. In countries making the transition from conflict to peace, for example Mozambique, the enormous cost of demobilization consumed some of the savings from reduced military spending. Also, many countries are yet to close the loopholes that distort the fairness of taxation or have efficient revenue collection systems put in place to minimize tax evasion and avoidance. Consequently, fiscal deficits in the region are expected to average about 6 per cent of GDP in 1994, up from about 5 per cent in 1993. However, in order to contain monetary expansion, some African countries have financed the bulk of their fiscal deficits by issuing treasury securities rather than directly resorting to borrowing from their central banks.

30. In a few countries, the institutional, legal and operational framework of domestic capital markets was revamped and strengthened with a view to generating greater confidence in the financial intermediation process among the investing public. The aim clearly was to establish the basis for the development of a sound financial sector for effective mobilization of domestic savings and

improved allocation of investment through more efficient intermediation. Some countries, for example Ethiopia and Morocco, have geared up for expanding the scope of private participation in the financial sector, either through entire or partial privatization of state-owned financial institutions, or by allowing the establishment of privately owned financial institutions. In Ethiopia, the first private banks and insurance companies since 1974 were established entirely on private initiative, following the promulgation of a comprehensive new law governing the registration of financial enterprises.

31. A number of countries have embarked upon currency reforms. The devaluation of the CFA franc in January 1994 was the most notable case of exchange rate adjustment in Africa during the year. This was, first, because of the number of countries that were involved (14 countries in two regions - West and Central Africa - plus the Comoros) and, secondly, because of the scale of devaluation. While the overall impact of the devaluation is yet to be gauged, the associated financial measures would appear to have brought about more discipline and encouragement of the use of domestic inputs. Exports have revived in some countries, owing largely to the incentives provided by the rise in domestic prices of export crops as a result of the devaluation. The higher prices, it would also seem, have reduced the incidence of smuggling of export crops from the zone. However, devaluation triggered a jump in domestic prices during the year, putting at risk significant elements of social welfare and employment creation.

32. Privatization is another area targeted by economic reforms. Here, progress is thwarted by the paucity of domestic savings within African countries, scarcity of aggressive entrepreneurship and lack or underdevelopment of stock markets. There is understandable reluctance on the part of African countries to dispose of public enterprises entirely to foreign investors often at give-away prices. Thus, countries are searching for an approach that would ensure that nationals retain significant equity in privatized assets, for example, through joint ventures with foreign investors. To the extent possible, they would also like to have a wide dispersal of shareholding in major privatized enterprises. Thus, before the Government of Ghana floated its remaining shares in the Ashanti Goldfields Company on the London Stock Exchange early in 1994, it reserved almost 2 per cent of the shares for the workers. In Ethiopia, the Government chose to break up the assets of the state-owned transport corporation into three shareholding companies to be wholly transferred to the workers in the form of a loan equal to the value of the transferred assets. In that way, privatization, if properly conceived, could be used to promote growth with equity, rather than widening economic disparities and increasing the concentration of economic power. Progress was also made in other areas of reform: notably, market and tax reforms geared towards the improvement of the investment climate for domestic and foreign investors.

33. In the area of African economic integration and cooperation, the most significant event in 1994 was the coming into effect of the Abuja Treaty establishing the African Economic Community (AEC). In the meantime, significant changes were under way in several subregional organizations during the past year, although not all of these can be perceived as direct responses to the Abuja initiative. In West Africa, while the Economic Community of West African States (ECOWAS) has been seized with the problem of rationalizing the

intergovernmental organizations in the West Africa subregion, the West African Monetary Union (UMOA) and the Communauté économique de l'Afrique occidentale (CEAO) were converted into the West African Economic and Monetary Union (UEMOA) in January 1994. Similarly, CILSS completed its restructuring programme in order to alleviate its financial constraints and make the organization more efficient.

34. Efforts at rationalizing and harmonizing the subregion's numerous intergovernmental organizations, numbering about 40 in all, continued in 1994. In North Africa, there are ongoing political efforts to integrate more countries into the Arab Maghreb Union. This is encouraged by the presence of large markets in neighbouring countries such as Egypt, with a population of over 55 million and the Sudan with an abundance of agricultural raw materials. In Central Africa, the heads of State of the Union douanière et économique de l'Afrique centrale (UDEAC) have formulated a new treaty for the creation of the Communauté économique et monétaire de l'Afrique centrale (CEMAC). CEMAC would include the Union économique de l'Afrique centrale (UEAC) and the Union monétaire en Afrique centrale (UMAC), as a part of which the Banque des états de l'Afrique centrale (BEAC) will be administered. The aim of the new treaty is to attain a transition from a customs union under UDEAC to an economic and monetary union. In East and Southern Africa, 1994 ushered in fundamental changes in the subregions' two main economic groupings: the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). COMESA took over from the Preferential Trade Area for Eastern and Southern African States (PTA), which had been in existence since 1978. The parallel existence of SADC and COMESA has been a thorny issue in 1994. South Africa, which joined SADC during the year, and Botswana are not members of COMESA, while Namibia has not yet ratified the COMESA Treaty. Nevertheless, efforts at the harmonization and rationalization of the two organizations are continuing, even after the rejection of an earlier decision to merge the two.

35. In spite of the above developments, regional economic cooperation and integration in Africa continue to be beset by numerous problems, in particular inadequate transport and communication networks, weak production systems with virtually no intersectoral and intercountry links, tariff and non-tariff obstacles to intraregional trade, and lack of convergence of national economic policies. Policies and programmes to address these problems have been proposed in the Lagos Plan of Action and the Final Act of Lagos, as well as in the African Alternative Framework for Structural Adjustment Programmes for Socio-Economic Recovery and Transformation (AAF-SAP). More recently they have found expression in various subregional efforts and in the Abuja Treaty itself. What is urgently required is implementation. As part of the efforts to promote effective economic integration in Africa, there has recently been increasing discussion on how to bring into consonance economic integration strategies and structural adjustment policies and programmes.

VI. PROSPECTS FOR 1995-1996

36. Altogether, there are grounds for modest optimism regarding the growth prospects of the region's economy in 1995. The ECA secretariat estimates that Africa's regional output should grow by about 3 per cent in 1995. It is too early to quantify prospects for 1996, but it would seem that growth may not exceed the rate expected in 1995, which in itself is far from what is required to make an impact on poverty and social welfare in the region. Progress towards resolution of the civil wars and ethnic tensions and conflicts will no doubt have a favourable impact on the performance of the economy. However, the overall economic performance in Africa in 1995 will, as in the past, depend heavily on developments in the region's external sector as well as on climatic conditions. Weather conditions may not be favourable in the Maghreb, particularly in Morocco, and the same situation may hold for some countries in southern Africa. The overall food supply situation, however, is expected to be fairly satisfactory in 1995.

37. The prospects for resource mobilization in support of the development process in Africa would depend on the success of the reforms of the financial sector that are in progress in a number of countries in the region. However, much more needs to be done in order to make domestic financial markets effective avenues for mobilizing and allocating financial resources. The elements for hope may be found in the pronouncements made by the international community at various forums, including at the Summit of the Group of Seven at Naples, Italy, the Summit of the Non-Aligned Movement at Jakarta, Indonesia, and the meetings of the Board of Governors of International Monetary Fund (IMF) and the World Bank. Whether there would be substantial debt reduction and increased and sustained resource flows to the African countries in 1995 is far from clear. However, the improving business climate across the continent, the impact of developments in foreign exchange policies and the slow but steady growth of confidence in political stability, and the continuity of economic policies and financial reforms in parts of the continent are some of the positive factors that may help to reverse the recent trends in disinvestment and the drying up of private investment, both foreign and African, in the region.

38. Preliminary estimates indicate a recovery of MVA in 1994 in all the subregions except Central Africa, where it is projected to decline by 8.7 per cent. The surge in commodity prices in 1994 and 1995 may well encourage an expansion in productive capacity, which was previously discouraged in Africa and elsewhere by low and declining world prices, and it may cause prices to revert to their secular trend. As in 1995 and previous years, therefore, the vicissitudes of the weather and price movements on the international market continue to cast a cloud of uncertainty over future growth prospects in Africa, in view of the importance of agriculture's contribution to aggregate output, export revenues and employment. The violent conflicts affecting a significant number of countries and the lack of democratic and enlightened governance in many cases also contribute to the uncertainty regarding the region's future growth prospects. It would be an error, though, to conclude that mere political, economic and financial liberalization will automatically bring about development. Indeed, a lot would depend on the real changes in the production sphere, in terms of competitiveness and productivity - and in intra-African cooperation - all of which are crucial for socio-economic progress and

transformation in the region. Intra-regional trade will not only contribute to improved productivity and greater competitiveness for African products, it will also provide a stronger basis for the effective participation of the African region in the evolving global linkages and interdependence of production units.

39. Although Africa should accept the outcome of the Uruguay Round of multilateral trade negotiations in principle, it should nevertheless explore all the provisions for exemption from full compliance and delayed implementation until it has rehabilitated its economies and improved its competitive position. It should seek special compensation from Europe, to be devoted exclusively to economic restructuring, in order to make up for the expected losses arising from the agreement. It should also avail itself of the provision for amending the Lomé IV Convention in the event of multilateral trade negotiations within the World Trade Organization (WTO) or other measures relating to general trade liberalization which lead to the loss of competitiveness in the export of agricultural products from the African, Caribbean and Pacific Group of States (ACP) to the single European market. It should join other developing countries in preparing the ground for future negotiations within WTO on issues of importance to them that were not completely settled during the Uruguay Round negotiations.

40. Prospects in most African countries for mobilizing adequate external resource flows in 1995 and beyond look rather difficult. With regard to the African debt problem, two things remain to be agreed upon: whether finding lasting solutions will need to be dealt with on a case-by-case basis or at the subregional and/or regional level; and what conditionalities should be attached to such debt relief. Those are the issues that will occupy African countries and the international community in 1995 and beyond.